

REPORT
OF
FARM APPRAISAL
CONFERENCE

Held under the auspices of

MORTGAGE LOANS ASSOCIATION
OF MANITOBA

IN

WINNIPEG, MANITOBA

February 17th, 18th and 19th, 1936



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- PART 1. Comments by Committee.
PART 2. Report on Proceedings and Discussions.



17

Farm Appraisal Conference

Part 1

Comments by Committee

1. The Conference was held owing to an increasing recognition of the importance of giving proper weight to the productive factor in farm land appraisals, and a growing need for a method of appraisal in which the valuation is built up step by step, showing the weight given by the appraiser to the various factors that affect the worth of the property being appraised.
2. A report of the Conference has been prepared dealing at considerable length with the discussion that took place. Farm land appraisal is not an exact science and consequently there is no complete unanimity of opinion among qualified appraisers in any country, and in the opinion of the Committee the contents of the Conference report should be regarded as merely suggestive.
3. The discussion at the Conference centered around Basic Value (later explained in detail), and brought out clearly that the basic value of a farm property is determined by considering and giving proper weight to the following factors:
 - (a) Earnings.
 - (b) Location.
 - (c) Home use.
4. The discussion further brought out that one simple method of approach to a valuation based on these factors is, briefly, as follows:
 - (a) Regardless of whether the farm is operated by the owner or a tenant, assume that it will yield as rent the share of produce (or cash rental) for similar properties under the usual lease terms typical of the community.
 - (b) In determining the value of any rental share of the produce, assume that the farm will be used and operated in a manner, typical of the community, that the yields will conform to the long-term record of the community for soils of the type under consideration, and that prices for produce will be the average local market price over a representative period of years.
 - (c) From the landlord's share so determined, deduct the items chargeable against the landlord, such as taxes, insurance, any necessary management charge, and a sufficient amount to provide for the annual maintenance of buildings, and the balance will give the net rental, or earnings.

- (d) Capitalize the earnings at a proper rate, thus giving a capitalized production value.
- (e) Then consider the effect of location and home use and increase or decrease the capitalized value appropriately to provide fairly for the effect of these other important factors -thus arriving at a basic value fairly representing all three primary factors.
- 5 The following illustrates one way in which this procedure might be set out in an appraisal form:

VALUE OF TYPICAL RENT UNDER TYPICAL OPERATION.

CROP	ACRES	YIELD	PRICE	RENTAL SHARE	VALUE OF RENT SHARE
Wheat					\$
Oats					\$
Barley					\$
S F.					
Pasture				\$	\$
Bldgs.				\$	\$
Total Rent					\$

DEDUCTIONS FROM GROSS RENT

Taxes	\$	\$
Insurance	\$	\$
Maintenance bldgs.	\$	\$
Investment Supervision	\$	\$
Other expenses	\$	\$
	\$	\$

VALUE OF NET RENT (EARNINGS)

CAPITALIZATION OF EARNINGS (at %)

ADJUSTMENTS FOR LOCATION AND HOME USE.

LOCATION	ADD	SUBTRACT	
Markets & Roads	\$	\$	
Community	\$	\$	
Hazards	\$	\$	
Improvements	\$	\$	
HOME USES			
House	\$	\$	
School & Church	\$	\$	
Other factors	\$	\$	
	\$	\$	Net effect \$
			Basic Value \$

6. The Conference dealt principally with the determination of basic value, but the discussion brought out clearly that there are other special kinds of value, such as "present sale value," "forced sale value," "loan value," etc., which may be required for certain purposes or under certain circumstances. "Saleability" may be an important factor in adjusting basic value so as to determine some special kind of value. The discussion indicated that a useful service could be performed in the definition and clarification of special kinds of value and their relation to basic value.
7. The discussion brought out that rental terms in Western Canada are largely based on grain production and may not adequately reflect the use of buildings, pasture, location and other improvements or advantages the property may have.
8. The rate used in capitalizing the net earnings of a farm investment has an important bearing on the productive value so determined. It is suggested that a valuable contribution to the theory and practice of farm land appraisal in Western Canada can be made by a study and interchange of views on the subject by interested organizations.
9. Reliable long-term statistics covering local yields and local prices are necessary to a proper determination of the productive factor in valuation. It is suggested that organizations with a substantial and continuing interest in farm land appraisal should lend their support to the accumulation, extension and maintenance of these data. It is suggested that the natural zone is the most suitable unit on which to base records, and which would have to be worked out between a representative committee and the company furnishing the statistical information.
10. Soil classification and soil rating, together with an accepted nomenclature, is fundamental to farm appraisal, and the work on soil surveys should be supported in every possible way.
11. There appears to be a considerable variation in the nomenclature and legends used in the appraisal procedure of investment and other institutions interested in farm land in Western Canada. Greater standardization in respect of these matters, while not an immediate possibility, has obvious advantages, and should have a place in any future efforts that are made to clarify appraisal procedure and practice.
12. The discussion at the Conference was intensely interesting, and since its conclusion the Committee has been repeatedly urged to consider ways and means of setting up an organization to further study the subject, with special reference to the problems to be faced in Western Canada, in order that a more common basis of approach to farm land appraisal may be evolved. In the opinion of the Com-

mittee, interest in the problem can best be secured and maintained by the formation of a Farm Land Appraisal Institute of a permanent nature. If this step were taken, consideration should be given to securing the co-operation of other interests such as soil experts, municipal organizations, Government Departments, etc. The creation of a permanent appraisal organization would undoubtedly lead to a more uniform basis of valuation, tend to raise the standard of appraisal work, might in time lead to the recognition of appraisal work as a profession, and thus result in greater protection for the public at large as well as those interested from the investment point of view.

March, 1936.



Farm Appraisal Conference

Part 2

Report of Proceedings and Discussion at Conference

Prepared by Committee appointed
by Resolution of the Conference

Companies and Organizations represented were: —

CANADA LIFE ASSURANCE COMPANY
CANADA NORTH WEST LAND COMPANY
CANADA PERMANENT MORTGAGE CORPORATION
CANADIAN FARM LOANS BOARD
CANADIAN PACIFIC RAILWAY (LAND DEPT., CALGARY)
CANADIAN NATIONAL RAILWAY (LAND DEPT.)
COLONIZATION FINANCE CORPORATION
CONFEDERATION LIFE ASSOCIATION
CREDIT FONCIER FRANCO-CANADIEN
EMPIRE LOAN COMPANY
GREAT-WEST LIFE ASSURANCE COMPANY, (THE)
HOME INVESTMENT AND SAVINGS ASSOCIATION
HUDSON'S BAY COMPANY, (LAND DEPT.)
HURON & ERIE MORTGAGE CORPORATION
IMPERIAL LIFE ASSURANCE COMPANY
INTERNATIONAL LOAN COMPANY
LANDED BANKING AND LOAN COMPANY (THE)
LAW UNION & ROCK INSURANCE COMPANY, LIMITED
LONDON & WESTERN TRUSTS COMPANY LIMITED, (THE)
LONDON LIFE INSURANCE COMPANY
MANITOBA DEBT ADJUSTMENT BOARD
MANITOBA FARM LOAN BOARD
MANUFACTURERS LIFE INSURANCE COMPANY
MONARCH LIFE ASSURANCE COMPANY
MORTGAGE COMPANY OF CANADA
MUTUAL LIFE ASSURANCE COMPANY OF CANADA
NATIONAL TRUST COMPANY LIMITED
NETHERLANDS INVESTMENT COMPANY OF CANADA LIMITED
NORTH AMERICAN LIFE ASSURANCE COMPANY
NORTHERN TRUSTS COMPANY (THE)
NORTH OF SCOTLAND CANADIAN MORTGAGE CO., LTD. (THE)
OLDFIELD, KIRBY & GARDNER
OSLER, HAMMOND & NANTON, LIMITED

OSLER & NANTON TRUST COMPANY
 PRUDENTIAL INSURANCE COMPANY OF AMERICA
 PROVINCIAL LAND DEPARTMENT (MANITOBA)
 ROYAL TRUST COMPANY (THE)
 SOLDIER SETTLEMENT CANADA (BOARD)
 SOVEREIGN LIFE ASSURANCE COMPANY
 STERLING TRUSTS CORPORATION (REGINA)
 SUN LIFE ASSURANCE COMPANY OF CANADA
 TORONTO GENERAL TRUSTS CORPORATION (THE)
 TRUSTS & GUARANTEE COMPANY LIMITED (THE)
 TRUST & LOAN COMPANY OF CANADA
 WINNIPEG REAL ESTATE BOARD
 WESTERN HOMES LIMITED
 WESTERN TRUST COMPANY

The guest speaker was Mr. D. Howard Doane, of the Doane Agricultural Service, St. Louis, Mo., U.S.A., Chairman of the National Joint Committee on Rural Credits, and a member of its Sub-committee on Appraisals.

Total registration—200.

ORDER OF BUSINESS.

Morning Feb. 17th—Discussion of factors that affect value.

Afternoon Feb. 17th—Valuation of a particular farm.

Morning Feb. 18th—Detailed discussion of "Earnings" factor.

Afternoon Feb. 18th—Detailed discussion of "Location" and
 "Home Use" factors.

Morning Feb. 19th—General discussion in regard to improvements, soils, and different kinds of value.

The discussions and proceedings may be summarized briefly as follows:

An appraisal is a written *opinion* of a qualified appraiser of the basic value or worth of a rural property. Opinions vary with the individual and at best, an appraisal is only an opinion.

The appraiser must secure and consider all possible procurable relevant *evidence* which may have a bearing on the case before arriving at his conclusions; and his reasons and all essential evidence to support his final opinion, should be set out clearly in his written report.

Basic value is the worth of a property, which is determined by evaluating and aggregating each economic element or factor associated with the property. These economic factors are grouped under three main headings or aspects:

I. Earnings

II. Location

III. Home Uses

Many items in these factors merge into one another and are difficult to allocate to their proper groups, but it was contended that these three groups, or aspects, include all of the sources from which *basic* value is derived. In many instances, too, it may be found difficult to trace the source from which a piece of evidence flows.

The appraisal must be made as at the *date of inspection* of the property, and appraisal reports must be used with this in mind. The appraiser views the property exactly as he finds it on the day he makes his inspection, and without particular regard to its future possibilities. The past experience in production of the property being appraised, and of the community, should be obtained and carefully considered, for the reason that experience, if typical, will be reflected in future performances. Every appraisal of a rural property must be based on operations typical for the community, by a farmer typical of those found in the community, at a rental typical of that current in the community, regardless of actual ownership or operation of the property being appraised; that is to say, the rental should be based on the landlord-tenant relationship typical of the community.

Questions and discussion brought out that there are other kinds of value besides basic value, such as investment value, normal sale value, loan value, assessed value, etc.; but it was submitted that all of these are based on Basic Value though these different values are extensions beyond it. Basic Value is analogous to the highest common factor in mathematics, and includes all of the factors that are basic or common to all

of the different kinds of value commonly encountered, some of which have been mentioned above. The effectiveness of this in practice depends upon the manner in which "earnings," "location," and "home uses" are set up in arriving at Basic Value; hence the reason for so much time being spent in enlarging upon and discussing these three factors in detail and the procedure to be followed in arriving at Basic Value.

These three factors will now be examined in more detail and in the discussion on the following pages, up to and including Page 7, wherever the appraisal of a farm property is implied, that property is assumed to contain no "raw" or "undeveloped" land.

I. EARNINGS.

Bookkeeping is not always the farmer's strong point, but though exact accounts may be lacking, reasonably close estimates of crop yields, grades, etc., applying to the farm in recent years at least, can usually be secured. The longest record possible should always be sought. This should be compared with the average for the community as evidenced by Government or other statistics.

Produce prices should be adjusted to indicate what the operator actually receives on the farm and not what is paid at some distant marketing point. Prices for different kinds of produce are based on the average for previous years. Some appraisers use a moving average based on prices realized over a period of from five to ten years. Years of abnormal prices, such as during the Great War, should be excluded in arriving at average prices.

The primary object in obtaining these estimates is to determine in money the returns which will accrue to the owner of the property, and which, capitalized, will furnish the value of the property due to earnings. If a fixed money rent is paid to the landlord, and this is typical of the landlord-tenant relationship in the community, then yields and prices do not enter into the calculation. In most cases, however, rent is paid in kind by the farmer-tenant, usually a specified share of the crops produced, and then yields and prices are essential in order that the revenue the landlord receives may be known.

In determining what income will be received by the landlord, typical operation and management of similar farms in the community must be taken and not the actual operation of the particular farm being appraised. The present tenant may be an exceptionally good farmer or he may be an inferior one; but whatever the case may be in this particular, there can be no assurance of continued occupancy by the tenant in possession of the farm at the time of its appraisal; therefore, the appraisal should be based on returns from the property when operated in a manner typical of the community and thus the conditions most likely to occur will be represented.

"Typical" does not necessarily mean "average." As applied to farmers, it means the largest group of farm operators, graded according to merit as operators, occurring in the scale from superior to inferior, and comprising all operators in the community. It is not possible for the appraiser even to visualize the "average operator," whereas he may see and talk with a "typical operator."

Similarly, the operation (crop rotations, working of the land, etc.) of the farm property being appraised must be considered as typical of that of similar lands in the community regardless of what the actual operation of the farm may be at the time of appraisal.

EXPENDITURES.

Expenditures have to be offset against earnings. These include such items as taxes (ordinary and special), maintenance of buildings and other improvements, seed, fertilizer, threshing, etc. Only such items, or such portions of them as affect the landlord's share or rent, are to be included. The typical landlord-tenant relationship will have a direct bearing on what and how much of each item is included under this heading, as sometimes the landlord and sometimes the tenant has to shoulder the cost of taxes, seed, threshing and other items. It is the duty of the appraiser to go into this, and to ascertain what the typical practice in the community is for all details.

II. LOCATION.

This heading covers such matters as the distance of the property from the shipping point and market town; the kind and development of roads serving the community; the nationality of settlers and density of settlement in the community; the kind of neighbors in the immediate vicinity of the farm property and in the community; hazards, etc.

Items, under the general heading of Location, are inserted in the appraisal by means of adjustments; and here we leave the typical for the community and take the actual for the property, as our basis. Here the appraiser is called upon to exercise his *judgment* in weighing matters which cannot be stated or considered mathematically, but upon which he has to put a value in dollars and cents wherever they affect the case. The ability to grasp the essentials, and to judge truly and wisely is indispensable to the appraiser.

By adjustments for location in terms of money, the appraiser is enabled to add to, or take away from, value for items which are not directly or indirectly reflected in the Earnings Statement, or where they are only partially reflected.

III. HOME USES.

Under this heading, the appraiser considers factors that are largely non-commercial, and yet affect the value of the farm property. Such matters as the kind of house, its architecture and arrangement; the garden adjoining the home, and the grove of trees leading to it; the location and setting of the home and the views from it; the kind of neighbors; neighborhood nuisances; churches and schools in the community;—these and many others may be included in this category.

Here again, as in the case of Adjustments for Location, we are dealing with things as they really are, and not with what is typical of the community.

All of these items which apply must be described and evaluated in the appraisal report as in the case of values due to Location previously described.

* * *

Following this discussion of Basic Value, and the three main elements entering into it, an example of a highly developed Red River farm was subjected to this method of appraisal, analysed and discussed in detail. Particulars are given in the following tabulation and discussion:

I. EARNINGS.

(A) REVENUE	ACREAGE	*YIELD (BUS.)	TOTAL YIELD (BUS.)	PRICE PER BU. (\$)	TOTAL VALUE (\$)	RENTAL SHARE	OWNER'S PART (\$)
Wheat	200	18	3600	.80	2880	$\frac{1}{3}$	960
Oats	100	30	3000	.34	1020	$\frac{1}{3}$	340
Barley	65	23	1495	.36	538	$\frac{1}{3}$	179
Flax	35	7	245	1.38	338	$\frac{1}{3}$	113
Sweet Clover	50	1½ tons	75 tons				
Summerfallow	150						

Total \$1592

(B) EXPENDITURE

1. Real Estate Tax @ 28c per acre	177.16
2. Special Tax (drainage—continuous)	137.98
3. Maintenance	120.00
4. Management (Referred to in Report as Investment Supervision, see pages 10 and 11)	25.00
5. Fertilizer	
6. Seed	
7. Threshing, Delivery Charges, etc.	
8. Insurance	76.00

TOTAL \$ 536.00

9. Difference—Revenue less Expenditure	\$1056.00
which capitalized @ 6% = \$17,600 = value of farm due to production.	

*(The average for the farm under typical management).

II. ADJUSTMENTS FOR LOCATION (Commercial uses).

	PLUS	MINUS
1. Markets, Roads, Transportation, etc.	\$640	\$
2. Community		
3. Comparison with neighboring farms		
4. Hazards		640
5. Improvements	320	
6. Physical Features	320	
7. Natural Resources		
8. Other Adjustments	640	
Total Adjustments	\$1920	\$640
9. Difference - Plus \$1280 = value due to adjustments for location.		
Net effect per acre - Plus \$2.		

III. ADJUSTMENTS FOR HOME USES (Non-commercial uses.)

	PLUS	MINUS
1. House	\$320	
2. Yard		
3. Home Income	160	
4. Recreational and Scenic		
5. Church and School facilities		
6. Neighbors and Neighborhood nuisances		
7. Outside employment		
8. Other adjustments		
Total Adjustments	\$480	= value due to adjustments for home uses.
I. Earnings	\$17,600	
II. Location	Plus 1,280	
III. Home Uses	Plus 480	
	\$19,360	
Special Tax (termite period -4 years to run - \$100 per year)*	Minus \$ 400	
TOTAL BASIC VALUE OF FARM	\$18,960	

The foregoing tabulation represents the value analysis of a farm containing one full section of 640 acres. Some of the figures were filled in as the case was discussed. Certain facts emerged through discussion as the case was analyzed item by item; the main points covered being as follows:

The three main elements or headings have been given Roman numerals corresponding to those used in the introductory part of this report, that is to say: I. Earnings, II. Location, III. Home Uses, and each item appearing under the main headings has been separately numbered for purposes of identification.

*See last paragraph, page 17.

I. EARNINGS.

(A) REVENUE.

In making a statement of earnings, besides investigating production from different parts of the farm, typical acreages of similar character in the community must also be considered; that is to say, the appraiser cannot take the crops at present produced or previously grown on the farm into the Earnings Statement unless they represent the average for the farm under typical management and in view of the farm operations typical of the community. For instance, the present operator of the farm may be superior to the typical farmer in the community, and may have operated on an ideal crop rotation plan for the land, whereas this plan may be not at all typical of the common practice in the community. An *ideal* crop rotation for farms in the community (which we will suppose the farm under consideration is following) may include for a half-section 100 acres wheat, 100 acres summerfallow, 50 acres oats, 50 acres barley, 20 acres hay; whereas the *typical* rotation in the community may be 150 acres wheat, 50 acres summerfallow and the balance in coarse grains and pasture. In this case, the typical rotation must govern the appraisal, and the statement of earnings therein.

Crop yields per acre and grades must be the averages for similar soils in the community. Such statistics are matters of record which are usually furnished to the appraiser by the sponsoring organization. Similarly, crop prices, which are averages too, are furnished to appraisers by sponsoring organizations.

In the main, the items in the Statement explain themselves.

In the example, the rental share for grains is considered to be one third of the crop for all varieties, which, however, in other cases might be qualified by the terms of the agreement between landlord and tenant in regard to such matters as seed, threshing costs, summerfallow, etc., and which, for appraisal purposes, is not the actual agreement between the landlord and tenant of the farm in question, but what may be considered typical or most apt to apply in the community. All of the points mentioned above have a bearing on the portion of farm income which goes to the owner of the farm, who, for appraisal purposes, it may be easier for us to think of as not the operator.

In our example, the part of gross revenue due to the owner on this account amounts to \$1592.

(B) EXPENDITURES.

Again in determining the amount of items under this heading, the typical landlord-tenant arrangement—what is customary in the community—will have to be considered. Only those items or portions of them which affect the owner's share or interest should be included.

(1) This item refers to general municipal taxes, but only that amount is to be entered which the appraiser, after due inquiry, considers

in all probability will prevail, that is to say, what the probable reality for the future will be.

(2) This item covers any special levies for drainage, roads, municipal buildings, etc. If the charge is a permanent one to be levied annually for all time, it is entered in this item, being in a similar expenditure category to general taxes—Item (1), but if it is a levy which runs for a fixed term of years, the unexpired term alone should be considered. In the latter case the usual practice is to take the total amount which remains to be paid during the unexpired term of the levy, and deduct it from the basic value of the property.¹ An instance of such a Special Tax might be a levy for a dam or similar public work constructed to benefit the land under consideration and other lands, and to be paid for by equal annual levies against such lands over a definite period of years. If, in the beginning, the total amount against the land under consideration were \$500, to be paid in ten years by equal annual instalments, of which four (\$200) have already been paid at the date of appraisal, then the appraiser should deduct the unpaid balance (\$300) in a lump sum from the basic value of the property.

In our example, \$400 was deducted for a Special Tax at the end of the tabulation.

(3) Maintenance here refers to and includes the average annual cost of maintaining all essential improvements (buildings, fences, wells, etc., also in some cases drainage ditches, private roads, etc.) in a usable condition perpetually. This is a most important item in the expenditure section of the Earnings Statement. The annual cost of maintaining these in a usable condition, both when they are new and when they are old, together with that amount which set aside annually will provide for their replacement in perpetuity, will form the basis for the entry for this item.

Where buildings are run down and in a dilapidated condition, some appraisers consider that an amount in addition to the annual maintenance charge should be included for the cost of bringing them back into proper condition immediately. In extreme cases, this might be justified, and can be provided for in the appraisal in II. (5) Adjustments for Location, but where an adequate annual allowance for maintenance is made, it will not be found necessary generally to make such a distinction.

In our example, the amount of this item is \$120.

(4) Investment Supervision constitutes a definite uncontrollable expenditure in all cases, regardless of ownership or operation, as some reasonable charge for management is justified. It is common practice in some parts for the organization sponsoring the appraisal to determine what amount shall be included under this heading, and to instruct the appraiser accordingly, and has no relation to Technical Farm Manage-

¹Theoretically, the amount to be deducted should be the present worth of future payments. Where the unexpired term is relatively long, the "present worth" deduction may be appreciably less than the total unpaid balance.

ment as generally understood, an investment charge which cannot be avoided.

In our example, \$25 is included for management.

(5) (6) (7) Fertilizer, seed, threshing, summerfallowing, etc., were referred to previously. These costs will have to be adjusted in that part of the tabulation which shows the land owner's share, to conform to the landlord-tenant arrangement typical of the community. For instance, the land owner's share may be one-third of the crop, but he may have to pay a portion of the threshing costs. The agreement may require that fertilizer be used, the tenant doing the work and the owner paying for the fertilizer. It must be borne in mind constantly that the reflection in the tabulation must be of arrangements typical of the community.

Nothing is included for these items in our example.

(8) The cost of insuring insurable improvements should be included in this item.

This item amounts to \$76 in our example.

(9) The total of I. (b) Expenditures, amounts to \$536. The difference between the owner's share of Revenue I. (A), and Expenditures I. (B), amounts to \$1,056 which equals the net revenue due to the owner on account of earnings. This should be capitalized to arrive at the value of the farm due to production.

Nothing was arrived at in discussing capitalization rates. In the example given, 6% was used. It was stated that in many cases organizations sponsoring appraisals in United States fix the capitalization rates for different territories and appraisers are furnished with these.

At 6% this value amounted to \$17,600 in our example.

It will be noted that although the farm in the example comprises 640 acres, only 600 acres are accounted for, the difference—40 acres—being comprised in a small pasture. A discussion centred around why revenue from this pasture did not appear in any part of the Earnings Statement. It was conceded that in all probability there should be another item in the Earnings Section I (A) for revenues from pasture, buildings, wood, and other earnings, as some leases have clauses covering cash considerations for such items, which are quite customary in certain communities. If any of these accrue to the benefit of the landlord, an extra item in I (A) would be needed to cover them, as they would not be reflected in the owner's share of the crop as given in our example.

It was contended that the production of livestock is adequately reflected in the Earnings statement. The real question is, how does livestock affect the income from real property? Livestock may be merely a means of marketing the products of the farm. If crops raised on the farm are fed to livestock, and manure actually goes back on to the farm so as to increase its productivity, then this will be reflected in the Earnings Statement; for greater fertility of soil tends to produce bigger yields and better grades of grain, with consequent higher prices for, and

larger total revenues from grain sold. This has a definite effect upon rental returns, and is reflected in the Earnings Statement.

In our example it might be assumed that horses engaged in working on the farm use this 40 acre pasture and, therefore, that this item is reflected in the Earnings Statement for the farm.

On the other hand, if this pasture were rented to a neighbor, then quite properly the revenue derived should appear in the Earnings Statement if the typical landlord tenant arrangement requires it.

The same thing might happen in connection with buildings not required for the operation of the farm; and if they were rented, the landlord's portion should be included in the Earnings Statement if typical of the community.

The converse of this applies also. If buildings, not included in the farm property being appraised, are essential or beneficial to the operation or production of the property, and are leased, the rents paid for them, or such portions of them as may apply to the landlord's share, might be deducted from the expenditure side of the Earnings Statement.

The same thing might apply also to land, such as, for instance, a pasture required for the operation of a farm property entirely devoted to grain growing.

Before providing for this item in his appraisal, however, the appraiser should make quite sure that the contingency has not already been covered by some provision or by the nature of the terms of the landlord-tenant arrangement (in force or elsewhere in his appraisal).

II. ADJUSTMENTS FOR LOCATION AND COMMERCIAL USES.

The appraiser should view all items under this heading as opportunities to express the real situation at the time of his inspection, but at the same time he is under no obligation to make an entry for any item, and there will be many against which he will place no figure. He should consider facts, such as: distance from town, kind and state of roads; routes that have to be followed, etc. He must come to a conclusion in every case as to whether there is an effect upon value and if there is, whether it is favorable or unfavorable; and thereafter he must measure and place a dollar value upon it if it is not reflected in any other value item in the appraisal.

It must be remembered that the appraiser is now dealing with *actual* and relative conditions, not typical. Typical values and conditions apply to item I. Earnings, only. But this should not be taken to mean that he is to disregard conditions in the community.

The final judgment of the appraiser on each point must be based on all the evidence he can secure; and adjustments for any items under this heading may be made in dollars per acre, or in a round figure for the farm, whichever he wishes to use.

In certain of the older countries in Europe, the appraisal of some of these items has been reduced to a formula, in which the figures applying to the case are substituted, and the result worked out mathematically; but in new countries such as U.S.A. and Canada, no formula is possible. Efforts along different lines towards developing formulae have been made, such as for instance, charting farm land values in relation to their distance from town, or in relation to the density of population. Either of these might have been expected to be fruitful; but so far anything attempted has been found unsatisfactory, and the formulae idea generally impracticable. Unstable conditions, partial settlement and continuing evolution in development and practice are probably responsible.

Items under the heading "Adjustments for Location" will now be considered in connection with our example.

(1) MARKETS, ROADS, ETC., AND TRANSPORTATION.

In our example the appraiser values this at plus \$1 per acre. Right or wrong, he has gone through a process of reasoning and arrived at the conclusion that \$1 per acre is the figure to be used. Had the property been cut off from the community market by difficult roads or other obstacles, this might easily have been a minus consideration.

(2) & (3) THE COMMUNITY AND COMPARISON WITH NEIGHBORING FARMS.

In our example, no value was either added or subtracted for these items.

The appraiser has to consider exceptional surroundings, community spirit, etc., also, neighboring farms may be dirty and not well kept. Weeds, etc., on adjoining land might be a factor in renting farms. Another case might be where the farm under consideration is a very large one in a district otherwise occupied by small farms. The farm may be entirely out of place in its surroundings.

(4) HAZARDS.

These are hazards related to the farm being appraised, and do not necessarily refer to those that are common to the district or community, as the latter should be reflected in the Earnings Statement.

The appraiser must guard against confusing hazards with detriments already accounted for in the appraisal.

Hazards in this section refer to measurable defects not already sufficiently reflected in the Earnings Statement. In preparing that Statement, consideration should have been given to all detriments which might tend to reduce the average crop, but this item gives the appraiser an opportunity to consider particular hazards, such as: complete crop failures through floods, which, though occurring only once in a long period, still recur with more or less regularity at long intervals.

Under hazards, it might be necessary to make a deduction in the case of a cultivated and clean farm in the midst of other weedy farms, to cover probable weed encroachments. Care should be taken, however, not to do this if the point is already covered by average yields from the farm under typical operation and reflected in the Earnings Statement.

A gradually developing weed situation might have to be considered as a hazard; and others might be grasshoppers, drought, rust, frost, hail, tornadoes, etc.

Vagaries due to war or periods of exceptional depression should not be taken as indicative. The appraiser should endeavour to get at the worth when conditions are levelled out and normal, not when extreme times prevail.

After considering the facts involved, the appraiser, in our example, decided to deduct \$1 per acre for this item.

(5) IMPROVEMENTS.

The house and yard are not considered in this item, but elsewhere under III. Home Uses. If the appraiser considers that the value or otherwise of improvements other than these is not sufficiently reflected in the Earnings Statement, he should make an adjustment here by addition or subtraction, as the case may require. Where improvements are deficient or entirely absent, the appraiser will have to consider the effect on farming operations, types of cropping and yields.

In the example discussed, the appraiser deemed buildings and other improvements to be more than ordinarily above the average and useful and attractive, so he concluded that they added \$320 or 50c per acre, to the economic value of the property.

(6) PHYSICAL FEATURES.

Adjustments for this item may be minus or plus, and refer to developments as well as to features and topography. As an example, a farm divided by any natural or man-made feature which forces the operator to go along a highway, or to cross a bridge, in order to get from one field to another, should get some "minus" consideration. On the other hand, shelter belts either natural or planted, might be worthy of some "plus" amount. Means of ingress or egress, gullies, rocky or stumpy land, low lying land, creeks, sloughs, drainage systems and outlets, severances by roads, railroads, the shape of the farm, etc., every such matter should receive consideration, and adjustments be made where necessary in this item.

In our example, an adjustment of plus \$320 was entered for this item, this being arrived at in view of the advantages of a shelter belt and the general layout of the farm as developed.

(7) NATURAL RESOURCES*

It is quite obvious what is intended, but investigation as to the ownership of rights must precede any entry in the appraisal. Such things as gravel, minerals, timber, etc., are referred to but no value for any of them should be included in the appraisal unless the rights to them are included in the landlord's title, and they have commercial value. (A tenant may have no rights to use or sell any such natural resource).

In our example, no amount was entered for this item.

(8) OTHER ADJUSTMENTS.

This leaves the door open for other considerations than those specifically enumerated.

Special factors may be found to apply in many cases. The difficulty of separating and allocating some of the things that may be entered in different items already discussed has been recognized; and it is equally difficult to distinguish between some of them and those items which after consideration should be included under the heading "Adjustments for Home Uses." It is probable, therefore, that this item will frequently be required.

In our example, a plus amount of \$1 per acre was added for this item.

(9) TOTAL ADJUSTMENTS FOR LOCATION.

The totals of all plus and minus items respectively are then obtained, and the difference between them entered with its appropriate sign (+ or -).

In our example, the total adjustments for location were found to be plus \$1,280, or a net effect on the property of plus \$2 per acre.

The appraiser is required to weigh all factors that have a bearing on value; he works through the detail of everything he can discover to those things which really have a bearing, and count.

The items listed under Adjustments for Location may be generally suitable for certain communities and not so for others. In the latter event, additional items to fit requirements may be inserted; remembering, however, that only those items that have commercial utility and value are to be included under this heading.

Herein lies the main difference between Adjustments for Location and Adjustments for Home Uses; the former are strictly commercial and the latter non-commercial. This is a purely arbitrary distinction adopted to serve the purposes of this system of appraisal.

*In Western Canada, the natural resources of soil, wood and surface water generally run with the land, while the rights to minerals, water powers, etc., and sometimes to timber are usually, but not always, reserved to the Crown. Where not reserved to the Crown, however, they may have been retained by the original grantee of the Crown.

III. HOME AND NON-COMMERCIAL USES.

These are satisfaction, or psychic values. They are the values that cause a man to take Farm A with lower returns, in preference to Farm B with higher returns, because, for him and his family, the former is a nicer place to live and more attractive as a home. It must be remembered that a farm is a home as well as a place of business.

Adjustments for home uses may be plus or minus.

(1) DWELLING.

An exceptionally nice house of adequate size in view of the requirements of the farm, well designed architecturally and with modern conveniences, may call for some plus consideration. On the other hand, an overly large or poor type of house may call for no adjustment, or a minus one.

In our example, a plus entry of \$320 was made for this item.

(2) THE YARD.

Well-kept lawns, gardens, hedges, trees, home fruit orchards, and other analogous features are considered in this item.

In our example, no entry was made for this.

(3) HOME INCOME.

This must not include anything that might be considered ordinary farm income. It may take the form of special facilities for poultry raising, bee-keeping or other means of producing small personal family revenues, and refers to such things as might be produced by the farmer's wife or his family, which are not reflected in the annual income from the property as a farm operation.

This item is likely to become more important as farming in Western Canada becomes more diversified.

In general, this may be deemed to refer to facilities in this category which add to the value of a property by making it more rentable.

If such a facility or means were to develop to such an extent that it became one of the commercial features in farm production, then it would have no place in this item, but would appear in the Earnings Statement.

In our example, an addition of \$160 was made for this feature.

(4) RECREATIONAL OR SCENIC.

This might refer to a lake or other beauty spot, to views obtained from the land, or to the approach to the land, making it more attractive.

In the extreme case, this might be the only item of value in a property.

In our example nothing was added for this.

(5) CHURCH AND SCHOOL.

This may be a minus or plus adjustment and would apply particularly in districts where special sects have congregated. In most cases, however, this would be well taken care of in the typical rental value.

In our example no entry was made for this.

(6) NEIGHBORS AND NEIGHBORHOOD NUISANCES.

This item is included more particularly to remind the appraiser to consider the effects of possible nuisances, such as refuse dumps (nuisance grounds), sewage farms, factories or operations that are objectionable by reason of smoke or fumes emitted, etc. These are likely to be found in more densely populated districts, or nearer to centres of population.

No entry was made in our example for this item.

(7) OUTSIDE EMPLOYMENT.

This might take the form of opportunities for commuting to some larger centre of population, or be due to proximity to a canning factory, or within reach of active mining or lumbering operations. The opportunity might be for part or whole time employment. This would be particularly beneficial where the farmer or his family might spend time not actually required in working the land in some profitable occupation.

Nothing was added for this item in our example.

(8) OTHER ADJUSTMENTS.

This provides a place where any adjustments, plus or minus, other than those listed above may be made.

Nothing was included for this item in our example.

(9) The totals of all plus items, and minus items, and the difference between them, are entered here. This difference is the total Adjustment for Home Uses.

In our example, this difference amounted to plus \$480, or a net effect of 75c per acre.

TOTAL BASIC VALUE.

The total of the three factors, Earnings, Location and Home Uses, amounts to \$19,360.

From this amount, any deductions for special taxes which run for a terminate period should be made. In our example, an amount of \$400 for a Special Drainage Tax is entered. This represents the amount which still remains to be levied.* This amount deducted from \$19,360, leaves \$18,960, which is the Basic Value of the farm property.

*See last deduction in tabulation, page 8.

Again the fact is emphasized that this Basic Value is the appraiser's *opinion* based on the conditions he found *on the day* on which he made his inspection of the farm property.

It was stressed at the Conference again and again that all features must be valued as they are found at the time of appraisal. Buildings must be considered as they are, fences as they are, water supply as it is, etc., and none of them as the appraiser thinks it ought to be or as he would like it to be. If all relevant features, present or absent, as at the date of appraisal, are adequately reflected in one or other of the three main factors comprised in Basic Value, the appraiser should make no further special deduction for the absence of any feature, the presence of which appeals to him as being particularly important or desirable. The question of valuing the water supply feature was raised, and it was stated that this as well as other improvements in the way of buildings, etc., will usually be found reflected in the Earnings Statement; only exceptional features should receive recognition by value adjustments.

Appraising is a positive approach. The appraiser must assume that he is dealing with an effective operating farm. He is not concerned with how effective it might be; he deals with the case as he finds it. The appraiser does not act in the capacity of a land developer, or an architect or a drainage engineer or a farm manager; his is a profession which requires him to set a value on property *as he finds it on the day of his inspection*.

* * *

This ends the observations on the appraisal and analysis of the example taken, and the discussion of points arising therefrom.

* * *

BUILDINGS AND IMPROVEMENTS.

In arriving at Earnings and Adjustments for Location, two of the main factors in Basic Value under this system of appraisal, a farm property, including all buildings and other improvements contained therein, is looked upon as an industrial plant for the production of farm products, the value of which is determined by its productive capacity under management typical of the community.

Considering buildings alone, these are reflected in the Expenditure side of the Earnings Statement in Items 3, Maintenance, and 8, Insurance.

"Maintenance" is intended to cover the average annual provision that the landlord should make to maintain improvements in a service-

able condition permanently. If the maintenance provision is adequate, no charge for depreciation need be included.

Where a farm property contains a set of buildings just adequate (and no more) for the operating requirements of the property, such being in fair and usable condition, under this system of appraisal all value for these buildings is completely covered in the Earnings Statement.

Where, however, there is a particularly nice set of buildings, though not too elaborate for the farm, as an addition to the reflection of these in the Earnings Statement, an appropriate adjustment should be entered in the Location or Home Use Sections, or both, depending on whether it is the farm buildings, or the home, or both that are particularly attractive. (This feature might be covered, however, by an addition to the usual rental share typical of the community).

If a farm property is very much overbuilt, the excess liability due to this may be sufficiently reflected in the maintenance item of the Earnings Statement, but if not, a minus adjustment should be made in the Location or Home Uses Sections.

Where a farm property has insufficient buildings or no buildings, it is reasonable to assume that either production suffers, or that buildings *not on the property are used*. In the former case, if the condition is not reflected sufficiently in the Earnings Statement, a minus adjustment in the Location or Home Uses sections may be required; in the latter, the need for an entry on the Expense side of the Earnings Statement to reflect the cost (rent) of using such buildings should be considered.

An appraiser might be required to value buildings entirely apart from the land on which they stand, say, for insurance purposes or for salvage. It may be required to include a table of buildings giving their value in dollars for insurance purposes in the appraisal report, but this table should have no connection and must not be confused with the sections of the report dealing with the appraisal of the property. The methods used in arriving at building values for insurance purposes will vary with different companies.

In general, the term "improvements" includes not only buildings but also fences, ditches, wells, etc.

SOILS.

The identification of soils—series and types—is a vital part of the rural appraiser's work. This does not mean that the appraiser must be a soils expert, but he must be a practical man, know soils—series and types—be able to identify same and to place the proper value ratings upon them.

* * *

At the conclusion of the sessions the Conference passed a resolution appointing the undernamed as a Committee to prepare a report of the proceedings and to consider and report on what further action might be taken to ensure a continued study of the problem of farm land appraisal in Western Canada.

G. G. BAIRD
F. J. FREER
J. C. FULLER
W. E. HOBBS
C. E. JOSLYN
J. H. C. LAWRENCE
H. S. LITTLEPROUD
W. B. McCUTCHEON
C. W. PICKARD
A. R. PURCHASE
F. W. REINOEHL
E. M. TAYLOR
W. M. WALLACE
WM. WHYTE
G. L. WRIGHT

